



DMHC Fact Sheet on the Potential Change in Licensure of PacifiCare of California and UnitedHealth Group

Background

The Department of Managed Health Care (DMHC) licenses and regulates HMOs and managed care health insurance products in California. As the only stand-alone HMO regulatory agency in the nation, the DMHC touches the lives of more than 21 million enrollees by enforcing strict patients' rights law, ensuring that HMOs remain financially solvent, and assisting consumers with problems and concerns.

Every time a licensed health plan makes a change to its business plan, product offerings, or any other change to its original license, it must gain approval from the DMHC. A merger of two health care providers is one of the most complex and important transactions handled by the DMHC, in terms of the impact on California consumers and economy.

On August 2, 2005, PacifiCare of California (PC) filed an application to change in license, requesting that the parent company, PacifiCare Health Systems, Inc. (PHS), be changed to United Health Group, Inc. (UHG), a company based in Minneapolis, Minnesota. This requested change impacts approximately 3.5 million California enrollees.

Under California law, the role of the DMHC in considering the merger of PC's parent with UHG is to make sure the licensed plan will remain financially stable and enrollees will continue to have timely access to medically necessary health care.

The law allows the DMHC to consider factors affecting Californians such as:

- Continuing the timely delivery of quality health care services to enrollees
- Restricting PC from transferring excessive assets to its out-of-state parent
- Limiting the use of PC assets as collateral for the loans of UHG and its affiliates
- Maintaining appropriate levels of tangible net equity and working capital to ensure that PC is financially viable to reimburse its provider claims timely
- Continuing current PC products and participation in government programs
- Maintaining crucial PC plan functions in California, including its Medical Director and financial records

The DMHC will also ensure that administrative costs, including executive compensation, do not exceed 15 percent of the plan's revenue. ***However, the DMHC does not have authority under state law to set the level of executive compensation paid by a health plan to employees, nor the amount of premium charged to enrollees.***

The California Department of Insurance (CDI) also regulates a portion of the health care industry. Its jurisdiction derives from the Insurance Code, and primarily focuses on payment issues once services have been rendered, rather than on quality of health care issues. The CDI

has a similar review process to the DMHC for health plan changes in control, however, its authority is derived from the Holding Company Act, which gives broader authority to consider the financial interests of California policyholders.

Merger Review Process

The merger agreement between PHS and UHG provides for a nine-month timetable to complete the transaction, with an automatic extension of three months to complete any pending regulatory approvals. The parties also need to secure approval from the CDI, Federal Department of Justice, California Department of Justice and nine other states, including Texas, Nevada, and Colorado.

Formal DMHC consideration of the change in control request begins with receipt of the change in licensure application or “Material Modification filing.” No timetable for completion of the review has been established, as the DMHC will take the time necessary to conduct a thorough and deliberative review to ensure that California enrollees’ interests are fully considered and protected. Steps for reviewing the filing are:

- Waive statutory review time period: The Knox-Keene Act requires that Material Modification filings be considered within 20 business days. It is routine for the licensee to waive this time frame for major transactions, which requires an order of the Director.
- Schedule public meetings: The DMHC has scheduled two public meetings to solicit public input. The first one will be on August 25 in Santa Ana and the second will be on September 16 in Sacramento. The agenda and locations are on the DMHC home page at www.dmhc.ca.gov.
- Review filing and documents: This review will confirm or deny the ability of the licensee to remain compliant with requirements of the Knox-Keene Act following a merger. As the DMHC review progresses, additional document requests may become necessary.
- Complete undertakings: Once the licensee has submitted substantially complete filings, the DMHC will begin drafting appropriate undertakings to support the merger and ensure that the new parent and the licensee (PC) remain responsive to California consumers.
- Work with CDI to ensure consistency: The DMHC’s draft undertakings will be conformed to any conditions developed by the CDI to ensure that all California consumers receive the same benefits and protections.
- Decision-making process: Once the filing is complete, the Director will make the decision, unless an issue or concern causes her to recuse herself. In that case, the decision would fall to the Chief Deputy Director or another designee.

History of health plan mergers in California

Prior to the WellPoint-Anthem change in control filed on March 1, 2004, the DMHC had not been petitioned to consider a change in control of a major full service health plan licensee since its creation in 2000. However, the Department of Corporations (DOC), predecessor to the DMHC, considered several mergers including:

- PacifiCare Health Systems, Inc.'s acquisition of FHP, Inc. (a transaction resulting in the consolidation of two California health plans.)
- Health Systems International, Inc.'s acquisition of Foundation Health Plan (a transaction resulting in the consolidation of two California health plans.)
- Blue Cross hearing on the dedication of charitable assets following its conversion from a non-profit to a for-profit company.

Company information

PacifiCare Health Systems, Inc.

- PacifiCare Health Systems, Inc. (PHS), a California based holding company, is the corporate parent of one full service health plan and two specialized health plans under the DMHC's jurisdiction.
 - PacifiCare of California (PC), with 1.7 million enrollees, the fifth largest health plan in the state
 - PacifiCare Behavioral Health of California (PCBH), with 1.5 million enrollees
 - PacifiCare Dental (PCD), with 326,220 enrollees
- PHS has a total of 3.2 million members in eight states, and a total of 11.3 million members in specialty plans, behavioral health, dental, vision, and pharmacy benefit management.
- PHS has been licensed in California since 1975, originally as a non-profit. The company changed to a for-profit company in 1984.

United Health Group, Inc.

- UnitedHealth Group, Inc. (UHG) is a national health insurance company based in Minneapolis, Minnesota and comprised of 55 million members.
- UHG has not maintained a full service license in California since it exited the market in 2000. UHG does, however, maintain five specialized health care service plans licensed in California:
 - US Behavioral Health, with 2.4 million enrollees
 - Pacific Union Dental, with 237,000 enrollees
 - Dental Benefits Providers of California, with 199,000 enrollees
 - Spectra Vision Services Plan, Inc., with 109,000 enrollees
 - ACN Group, Inc., a new licensee, with no current enrollees